

## Montgomery assesses damage from the special session

■ Cuts to state aid 'could've been worse,' officials say

BY SEAN R. SEDAM  
AND JANEL DAVIS  
STAFF WRITERS

ANNAPOLIS — Montgomery County stands to lose millions in state aid for schools, electric utility grants, roads and open space under a budget plan passed by state lawmakers last week.

Montgomery is not alone. Counties around the state are scrambling to assess what a slew of tax increases and budget cuts mean for them.

In Montgomery, early assessments show the county losing a possible \$9.8 million in school operating fund, \$2.7 million in electric utility grants, \$2.7 million in Program Open Space money and \$1.1 million in highway user fees, said Joseph E. Beach, Montgomery County's budget director.

The cuts to Program Open Space will affect the construction budget of the county's Park and Planning Department, he said.

Before the special legislative session that ended Nov. 19, Montgomery County projected a \$308 million revenue shortfall for next year. By this week, the gap had grown to almost \$401 million.

Reductions in state aid will force county leaders to strike a balance, said County Council Vice President Michael J. Knapp (D-Dist. 2) of Germantown.

"My goal in the coming year will be to minimize the impact on

### HOW CHANGES WILL AFFECT LOCAL GOVERNMENTS' BOTTOM LINES

The Department of Legislative Services projects net losses in local revenue and state aid to all counties and Baltimore city at \$248,064,400. Read the full report at [www.gazette.net/links](http://www.gazette.net/links).

County	Local tax revenues	State aid	Total cuts
Anne Arundel	\$1,617,100	\$20,073,300	\$21,690,400
Baltimore city	\$4,682,800	\$26,337,100	\$29,999,900
Baltimore	\$3,661,600	\$26,766,000	\$30,427,600
Montgomery	\$1,482,300	\$18,547,200	\$19,104,900
Prince George's	\$7,650,100	\$40,468,000	\$48,118,100
<b>Total</b>	<b>\$34,177,800</b>	<b>\$213,886,600</b>	<b>\$248,064,400</b>

SOURCE: DEPARTMENT OF LEGISLATIVE SERVICES

ANTHONY BOWMAN/THE GAZETTE

taxpayers while recognizing that our residents and taxpayers want to see as high a level of service as we can provide," said Knapp, who is expected to be elected council president in December.

#### What the county faces

On Nov. 21, County Executive Isaiah Leggett (D) told the County Council in a letter that revenues for fiscal 2008 and 2009 are down almost \$175 million, due largely to lower income, recordation and transfer tax revenues.

After the special session adjourned last week, Leggett said "everything was on the table" to balance the county's budget, including tax and fee increases.

"I am reluctant to consider these options now due to recent actions by the state to increase the tax burden on Montgomery County residents and businesses," he wrote.

When the House of Delegates added an increase in the personal income tax exemption to Gov. Martin O'Malley's tax plan, local government officials were caught off guard.

The change increases the personal income tax exemption from \$2,400 to \$3,200 and creates a sliding scale that lowers the exemption as income rises.

Tax revenues for the counties and Baltimore city are projected to fall \$82 million in fiscal 2009, which begins July 1, because the exemptions reduce taxable income, leaving counties with less to draw on.

But because the tax package passed by the General Assembly takes effect Jan. 1, counties also stand to lose \$41 million in fiscal 2008, which ends June 30, according to the Maryland Association of Counties.

Montgomery is expected to receive about \$682.1 million in

state aid in fiscal 2009. Before the special session, the county was in line to receive \$698.7 million — about \$16.5 million more.

#### It's worse elsewhere

Montgomery fared better than some.

Anne Arundel, Calvert, Talbot and Worcester counties will see actual decreases — not reduced increases — in state aid.

Montgomery officials concede the fallout from the session is better than a projected worst-case scenario from state budget analysts that called for cutting aid to counties by \$652 million. The counties are expected to see a \$248 million cut instead.

The Montgomery delegation left Annapolis with a number of promises about what O'Malley (D) will include in the state budget that he will propose in January. Melanie Wenger, the county's chief lobbyist, told the County Council on Tuesday.

O'Malley committed to including \$5 million for Ride On bus service and money for a new District Courthouse in Rockville in his fiscal 2009 budget and agreed to pay for a new science building at Montgomery College's Rockville campus in one year instead of over two years, she said.

Perhaps the most significant pledge was that O'Malley would accelerate the phase-in of an index that apportions money to counties where the cost of educating students is the highest, Wenger said.

That would mean an additional \$9.2 million for county schools, and would partially offset \$19 million that the county is expected to lose under changes to the Thornton formula for K-12 education.

O'Malley also committed to a "substantial increase" in school construction aid, Wenger said.

The pledge was for \$55 million in additional school construction dollars, said Bonnie Cullison, president of the county teachers union.

The county also could be on the receiving end of \$12.5 million after the legislature closed a corporate transfer tax loophole, Beach said. But that money is unpredictable.

"We're certainly not counting that. That is a very optimistic number," he said.

Other counties, including Prince George's, face far deeper cuts than Montgomery.

"All things considered, it sure could be a lot worse," Wenger said. "Not that this is over."

Still to come are \$220 million in budget cuts that O'Malley must identify.

Knapp said he also expects heavy lobbying to repeal an expansion of the sales tax to computer services when the General Assembly returns in January. If computer services are removed, the state would have to find \$200 million in additional revenue or cut the budget further.

"There are a lot of moving pieces," Knapp said.

Staff Writer Douglas Tallman contributed to this report.